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Following is a statement by John C. Monjo, Deputy Assistant Secretary for East Asian and Pacific Affairs, before the Subcommittee on Asian and Pacific Affairs of the House Foreign Affairs Committee, Washington, D.C., May 15, 1986.

I welcome this opportunity to continue the long-established dialogue with the subcommittee on the situation in the Philippines and U.S. relations with that key allied nation.

The formulation and implemention of our Philippine policy objectives over the last several years has been the result of close consultations between the executive and legislative branches. We have worked hard to build a consensus on our Philippine policy. The effectiveness of our foreign policy is invariably enhanced when the U.S. Government speaks with one voice. We look forward to a sustained, productive dialogue with you and the members of your subcommittee regarding all aspects of our relations with the Philippines.

In my testimony today, I intend to look briefly at the accomplishments of the new Philippine Government and examine the challenges that remain to be faced and then turn to our policy objectives in the Philippines. I will describe the ways in which the United States is prepared to assist the Philippines to address longstanding economic and security problems. The President announced last month our proposal for additional assistance to the Philippines, which we believe strongly is required during the current fiscal year. Secretary Shultz has just returned from a visit to the Philippines where he discussed the thrust of our proposed assistance program with President Aquino and the senior members of her government. I will outline the nature of our proposed enhanced bilateral aid package and its justification.

The Accomplishments and Challenges

Political. President Aquino enjoys broad popular support. Filipinos perceive her government as honest and committed to justice for the common man. Nevertheless, her government faces new political challenges that stem from the unique nature of politics in the Philippines.

The first challenge facing President Aquino has been the creation of a new political order. President Aquino's earliest success in this regard was the appointment of a cabinet including experienced, respected professionals representing a broad political spectrum. The economic team in particular has demonstrated a pragmatic, free-enterprise orientation.

Her next step was to proclaim on March 25 a provisional constitution based on the 1973 "Marcos" constitution but without the legislative elements. She abolished the National Assembly and temporarily assumed broad legislative powers. She also assumed authority for 1 year to replace all local officials and government employees. The provisional constitution, significantly, protects civil rights and makes all presidential legislation subject to judicial review. In this regard, a new Supreme Court—composed of members that Filipinos consider to be of highest integrity—is in place.

At the same time, she announced her plan and, most importantly, a timetable to return the country to fully constitutional government. The first element is the selection by late May of an appointed commission to write a new constitution. The commission has 90 days to complete a draft, after which it will be submitted to the people in a plebiscite. Following ratification of the constitution, elections for local officials and a new legislature are to be held. Current speculation is that these elections will be held toward the end of the year.

President Aquino faces several formidable political tasks that will put her government to the test. These tasks include:

- Working effectively with the sometimes competing political forces within her government;
- Retaining the momentum she has developed to reform or replace existing political institutions;
- Dealing constructively with supporters of the former government in the positive spirit of reconciliation that marked her political victory; and
- Installing, where necessary, capable, reformist local government officials

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responsive to the needs of the local populace until local government elections take place.

All these issues are Philippine issues that Filipinos will resolve. However, virtually all observers in the United States and the Philippines—with the exception of the Communist Party of the Philippines (CPP) and its military and political front organizations—anticipate and support an early return through elections to fully functioning democratic institutions. Democratic institutions—including a new constitution ratified by plebiscite, a new elected legislature, and elected local governments—are the key to the long-term political stability of the country.

Economic. The economy presents perhaps the most complex problem but also one with great potential for a relatively quick turnaround. The Philippine economy has been contracting since 1983. The new government faces a heavy foreign debt burden, massive unemployment, extensive urban and rural poverty, and a severely depressed investment environment. The major sectors of the economy—agriculture, mining, manufacturing—have all been stifled by a statist approach, ill-conceived regulation, and the encouragement by the previous government of public and private monopolies.

Unwise policies and excessive government intervention, in addition to difficult world markets for the Philippines' key exports, left an economic structure deficient compared to other ASEAN [Association of South East Asian Nations] countries. Traditional plantation agriculture is in trouble. Labor-intensive and light industries are underdeveloped, and heavy industry is largely based on products for which the Philippines does not enjoy a comparative advantage.

The market-oriented economic team within the Aquino government is already seeking to promote deregulation and liberalization of the economy in order to spur positive growth in exports, imports, production, and investment. There is a new spirit and willingness by the government to consult with business, labor, and consumer groups on the choice of economic policies.

The new economic leadership has identified critical reforms which can go a long way toward restarting the engines of economic growth. These include:

- Allowing the peso to respond to foreign exchange market forces;
- Canceling decrees setting up monopolies in such sectors as sugar, coconuts, chemicals, etc.;
- Dismantling public sector financial entities and privatizing numerous public corporations;
- Liberalizing import restrictions, including removal of bureaucratic restraints on trade; and
- Eliminating price controls on certain agricultural products and establishing an efficient stabilization program for basic food commodities.

The basic objectives of these reforms are to restore free-market forces to the economy, increase the return to small agriculturalists, and bring about the growth of new and dynamic sectors of the economy. The Philippines has the trained labor force and the entrepreneurial talent to transform its economy. If the new government implements these reforms and is successful in restoring business and investor confidence—and early indications based on stock prices and the peso exchange rate are that it will be—the future looks promising. Of course, the United States and other donors will have a role to play, which I will address later.

Security. A serious, long-term threat facing the Philippines is the communist insurgency. The Communist Party of the Philippines—through its military arm, the New People's Army (NPA), and its overt front organization, the National Democratic Front (NDF)—is pursuing a classic military and political strategy intended to lead progressively, first to a military stalemate, then to a communist takeover of the central government. Their goals have not changed.

The NPA is a traditionally organized, rural-based communist insurgency. The leadership is generally well educated, disciplined, and determined. They should not be underestimated. Their strategy is to work politically among the rural population and dominate the countryside, gather strength militarily through attacks on government troops, while simultaneously attempting to penetrate the social, economic, and political systems of the country through united front activities.

The NPA military strength is estimated to be as many as 22,500 armed regulars with about 15,000 part-time guerrillas. The NPA's armed clashes make use of standard guerrilla hit-and-run tactics. However, military engagements are but one facet of the communists' use of violence to further their political goals. There is also an intense, lower profile campaign for the control of local government being waged by the CPP, backed by the force of the NPA and supplemented by the political activities of the NDF. This effort of intimidation, kidnaping, and assassination is directed against government and military officials, as well as businessmen, clergy, teachers, and others who resist the communists.

The NPA has not ceased its activities since the accession of President Aquino. In fact, the number of victims of the NPA has jumped markedly in the past month. Over 600 people have been killed as a result of NPA activity since the end of February.

Nevertheless, the coming to power of the Aquino government constitutes a setback for the insurgency because:

- The new government, in contrast to the previous government, enjoys widespread popular support;
- The principal propaganda target of the communists, the Marcos regime, is gone; and
- The communist election boycott was repudiated by the majority of Filipino people by an even greater margin than during the 1984 National Assembly election.

The government is now considering a cease-fire and amnesty program in response to the insurgency. The CPP/NPA has, thus far, avoided discussion of a nationwide cease-fire and has stated that it will not surrender its arms as a precondition. Should there be a cease-fire followed by a reasonable amnesty program, nonideological NPA members will probably surrender. Some already have. But the hardcore elements will fight on. To believe otherwise is to underestimate the discipline and indoctrination of the communists.

The challenge for the government is clear. A comprehensive counterinsurgency strategy under joint civilian-military leadership, as well as an amnesty component, is needed. Most importantly, the strategy has to address the root causes of the insurgency: poverty, ineffective and unresponsive local government, and military abuses. Military reforms aimed at restoring discipline and respect for human rights must be part of the effort. Restoration of competent and dedicated leadership at the senior levels of the armed forces, as recently initiated by the new government, is also essential to a reinvigorated, professional military. The installation of reformist local governments with close ties to the local populace is another element.

Meanwhile, political groups and other entities will have to continue to be vigilant to CPP/NDF attempts to penetrate and dominate their institutions.

U.S. Policy Objective and Goals

U.S. policy is founded on our desire to help the Philippines in all appropriate ways to meet the challenges I have just outlined and to help resolve the myriad problems left by the Marcos regime.

Our primary objective is to promote a close, productive bilateral relationship with the Aquino government and support its efforts to restore fully functioning democratic institutions in the Philippines. Such a relationship will build on shared national interests, historically close institutional and personal ties, and on mutual recognition of and respect for each nation's independent concerns.

In support of that objective we have set several policy goals:

First, to forge stronger links with the new generation of Filipino leaders;

Second, to assist as appropriate in Filipino efforts to restore economic prosperity to the country;

Third, to enhance the effectiveness and professionalism of the Philippine Armed Forces; and

Fourth, to maintain a continued, close defense relationship with the Philippines.

To accomplish the economic and security goals, which are priorities of both the Aquino government and the United States, we have proposed a program of enhanced economic and security assistance which I will describe below.

The strength of the Philippine-American relationship has always been in the close links forged between the Filipino and American peoples. These links were hardened in the fires of World War II. But the World War II generation is being replaced by another generation, and we need to renew our links. For this reason, we look forward to a much more active program of exchanges, both governmental and privately sponsored. We are working to create new linkages between U.S. and Philippine universities through student and faculty exchanges. The details remain to be worked out, but the goal is clear.

Our security interests are longstanding and well understood. The U.S. facilities in the Philippines serve vital security interests of both Washington and Manila. They contribute significantly to the security and stability of the region as a whole. This important role is recognized by the Philippines' ASEAN partners and other friends in the region. President Aquino's position with regard to the U.S. facilities at Subic and Clark is clear. She has pledged to respect the existing military bases agreement and to keep her options open.

We look forward to a strong, effective defense relationship with the Aquino government. The preservation of our important security interests in the Philippines and our vigorous support for democratic reforms in that country are mutually reinforcing elements of the same policy. We believe that our security relationship will be strongest with an independent, democratic, and stable Philippines.

Program of Enhanced Economic and Security Assistance

The President has sent to the Congress a proposal for a substantially increased economic and security assistance package for FY 1986 targeted to support President Aquino's program for economic recovery and reform in the Philippines. The support package for the Philippines, in addition to a request for a $150 million supplemental appropriation in the current fiscal year, contains several other significant provisions to accelerate fund disbursements and ease the terms of ongoing assistance programs. In total, about $500 million of economic assistance and over $100 million of military assistance would be available to the Philippine Government in FY 1986, more than 90% on a grant basis so as not to aggravate that country's already heavy external debt problem.

We are also taking measures in the trade and investment fields to help invigorate the Philippine private sector, in keeping with economic reform policies being implemented by the Philippine Government. These include new agreements with the Philippines on the generalized system of preferences and on textile quotas as well as expanded involvement by the U.S. Export-Import Bank and the Overseas Private Investment Corporation.

The United States is not alone in supporting the Philippine Government. We are one part of a multilateral effort, which includes the International Monetary Fund (IMF), the World Bank, the International Finance Corporation, the Asian Development Bank, and Japan and other donor countries. In late May, the United States will participate with other major bilateral and multilateral donors in a World Bank-sponsored consultative meeting to be held in Tokyo. The purpose will be to coordinate donor efforts and to discuss with Philippine Government representatives their country's economic problems and prospects for recovery. The private banking sector also has a very significant role to play. This multilateral approach is, in fact, fully in keeping with proposals made last year by [Treasury] Secretary Baker at the World Bank/IMF meetings in Seoul. Our proposed new aid program is based on an assessment of Philippine economic and military needs by a U.S. assistance team headed by AID Administrator M. Peter McPherson and including senior Treasury, State, and Defense Department officials, which visited the Philippines in mid-March. The delegation members met with President Aquino and conducted extensive discussions about the new government's needs and priorities with senior economic and military officials.

The Philippine Government has outlined sound, market-oriented economic policies, which it intends to pursue in order to restore sustainable, job-creating, and noninflationary growth in the Philippine economy. We applaud these policy directions and note that in recent weeks confidence in the financial community regarding Philippine economic policies and prospects has been increasing.

Additional military assistance is also urgently required for basic requirements—logistics, communications, transportation, and troop support—and to help promote military reforms. Philippine Government representatives made clear the need for increased military aid in discussions with the McPherson team and with [Defense] Secretary Weinberger earlier this month. The Aquino government has also clearly demonstrated the intention to carry out needed improvements to restore professionalism and capabilities to the armed forces.

Conclusion

Let me conclude with two thoughts. First, the assistance we are proposing will serve as an important manifestation of support from the American people to the Philippine people as they face the very difficult challenges ahead. Given our long association with the Philippines and our continuing important interests there, we ought to do all that we can in the way of appropriate assistance at this critical juncture in their history.

Second, the challenges faced by the Philippines will not be resolved simply through the application of external financial resources. They will be resolved only as a result of the sus-

tained efforts of the Filipino people working within a sound policy framework to rebuild their political and economic institutions and bringing to bear the energy, dedication, moral strength, and skills which they employed to resolve their political problems in February.

Secretary Shultz summed this up in Manila upon his departure on May 9 as follows:

> . . . the keen recognition of the problems and the readiness to go to work on them mean that these problems, while severe, are basically problems that can be solved. And I feel certain that they're on the way to being solved.

The U.S. role, and that of the international financial and donor community, is to provide those resources and programs the Filipinos themselves identify as essential to support their efforts. We believe the assistance package we have developed is responsive to Philippine needs and priorities, and we solicit your support for it. ■

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